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January 15, 2004

Chairman Deborah Taylor Tate
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Via Federal Express
Priority Overnight Delivery

***Re: Joint Petition of Tennessee-American Water Company and Marion County,
Tennessee, for Approval of Purchase Agreement
TRA Docket No. 03-00388***

Dear Chairman Tate:

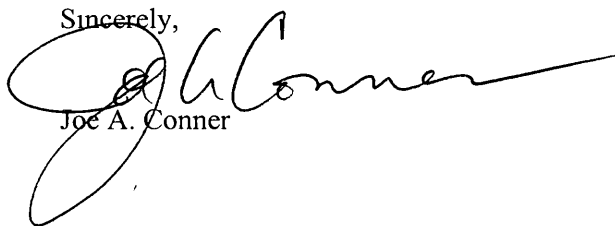
Please find enclosed the original and fourteen copies of each of the following documents for filing in the above-referenced matter:

- (1) Direct Testimony of James R. Hamilton;
- (2) Direct Testimony of Dan Bailey; and
- (3) Memorandum in Support of Petition.

Please stamp the extra copies "filed" and return them to me in the enclosed envelope.

Thank you for your assistance in this matter. Please do not hesitate to contact me if you have any questions about this filing.

Sincerely,



Joe A. Conner

JAC:klc
Enclosures

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**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

JOINT PETITION OF)
TENNESSEE-AMERICAN WATER)
COMPANY AND MARION COUNTY,)
TENNESSEE FOR APPROVAL OF)
PURCHASE AGREEMENT)
)

T.R.A. DOCKET ROOM

DOCKET NO. 03-00388

**DIRECT TESTIMONY OF
DAN BAILEY**

1 **Q: Please state your name, place of employment and title.**

2 A: My name is Dan Bailey. I am the Business Manager for Tennessee American Water
3 Company ("Tennessee American").

4 **Q: What is the purpose of your testimony today?**

5 A: The purpose of my testimony is to provide information in support of the joint petition
6 filed by Tennessee American and Marion County for the approval of the purchase of the
7 assets that make up the Suck Creek Water System.

8 **Q: When did Tennessee American take over the operation of the Suck Creek Water
9 System?**

10 A: Tennessee American began operating the Suck Creek Water System under an operation
11 and maintenance contract on April 1, 2003. The Suck Creek Water System is operated
12 by Tennessee American and accounted for as a separate business unit within Tennessee
13 American's books. At the time Tennessee American began operating the system, Marion
14 County had contracted with Soddy Daisy Utility District to provide services such as
15 reading meters, billing, collection, payment of bills and plant operations. As a matter of
16 convenience, Tennessee American has continued utilizing the Soddy Daisy Utility
17 District for these services since April 1, 2003 and has reimbursed Soddy Daisy Utility
18 District for these costs. Soddy Daisy Utility District is not paid any extra fees for these
19 services. It is anticipated that upon acquisition of the system, Tennessee American will
20 provide these services in house.

21 **Q: Please describe how Tennessee American maintains the Suck Creek Water System
22 as a separate business unit from an accounting perspective.**

23 A: All monies collected from customers served by the Suck Creek Water System are
24 deposited in a separate bank account of Tennessee American. Similarly, all checks from
25 this bank account require a signature by authorized representatives of Tennessee

American and are used for payment of the expenses associated with the Suck Creek Water System. Tennessee American also approves all invoices being paid.

All revenues and expenses relative to the Suck Creek Water System are being recorded on the books of Tennessee American in what is called a "business unit," within Tennessee American's accounting system, which allows us to clearly identify all revenues and expenses attributable to the Suck Creek Water System. Similarly, expenditures associated with the Suck Creek Water System are kept and recorded separately. In addition, we also track separately the water sales (gallons) and number of customers who are served by the Suck Creek system. In any future rate request, until and unless it petitions the Authority for approval to combine the rates of Tennessee American and the Suck Creek Water System, capital costs will be allocated to the Suck Creek Water System based on the investment in the Suck Creek Water System.

Q: Please provide a brief description of the Suck Creek Water System.

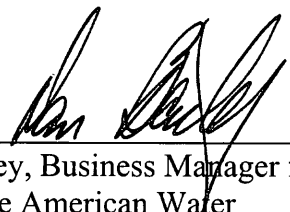
A: The Suck Creek Water System has approximately ten miles of six-inch main and some smaller main and a 100,000-gallon storage tank. There is also a treatment plant served by three wells, which mainly provides iron and manganese removal.

Q: Please provide a brief summary of the type of work that has been performed by or at the direction of Tennessee American since it began operating the Suck Creek Water System under the Operation and Maintenance Agreement with Marion County on April 1, 2003.

A: There has been a significant amount of work performed on the System since our responsibilities began under the Operation and Maintenance Agreement. The main construction project has consisted of the connector facility from the Suck Creek Water System to the Lone Oak Utility Distribution System. To date, approximately 20,500 feet of 12-inch pipe has been installed. There is a meter setting at the Lone Oak Utility District connection point, and the connector line runs to the elevated storage tank owned by Marion County. The project should be finished by the end of this month (January, 2004). The water that will be available through the Lone Oak Utility District is treated and ready for supply directly to the consumer through the System. Once connected, this should provide a necessary alternative source of supply, which would allow the TDEC moratorium placed on new services to be lifted.

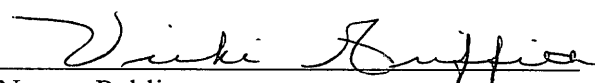
In addition, we have analyzed the condition of the Suck Creek Water System in some detail and have put in place a program to bring the System up to Tennessee American standards. For instance, there is a hydrant painting program in progress. We have contracted with Consolidated Technologies, Inc. to provide tank inspections for the elevated storage tanks. PH and turbidity meters have been installed at the treatment plant, sludge removed from the backwash tank and disposed of in the appropriate landfill, various valves have been replaced, and we are in the process of completing the installation of a computer data system which will enable the System to be more efficiently operated. Additional maintenance such as painting and general clean up of facilities has been accomplished.

- 67 **Q: In your opinion, has Tennessee American improved the quality of service and**
68 **reliability to the customers being served by the Suck Creek Water System?**
- 69 **A: Yes, we have made many improvements and will continue to do so in the near future.**
70 **Our operations, maintenance and ownership of this System is definitely in the public**
71 **interest and serves the public convenience.**
- 72 No further questions.



Dan Bailey, Business Manager for
Tennessee American Water

Sworn to and subscribed before me
this 14th day of January, 2004.



Notary Public

My Commission Expires: June 23, 2007

